MARKET STATEMENT 2002
HUNGARY

PRESENTED

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FOREST PRODUCTS MARKET STATEMENT OFD THE REPUBLIC OF HUNGARY

Macro-economic situation

Following a 3.8 per cent growth of the Hungarian economy in the year 2001, there has been observed an increase of production value of 3.3 percent in the year 2002. The output of industry only increased by 2.6 per cent, investments in the competitive sector regressed significantly. The output of the processing industry exhibited a growth of 3.6 per cent, including an increase of 10.8 per cent of the wood-processing industry itself. Like in the previous years, the overall growth of industrial production has been a result of a progress of export, the domestic sales being stagnant.
The production of the building industry increased by 20.1 per cent in the course of the year, thanks in the first place to an animation in the building of homes, in the second to the investments in the public administration.

The gross domestic production has produced an increase of 3.3 per cent according to the preliminary data. In the year 2002 the net average salary of full–time employees grew, resulting in an increase of 13.6 per cent of the real earnings along with a 5.3 per cent increase of price index. The increase of incomes however showed significant dispersion among the different branches.

General characterisation of Hungarian forestry

The Hungarian forestry authority, with the use of the database of the National Forest Stand Data-bank, has been for many years compiling the annual reports about the forestry activities according to consistent professional points of view.
The data below are taken from the latest report:

Table 1.

	Year 2000.	Year 2001.	Year 2002.
Forested area, th. ha	1.782	1.798	1.821
Growing stock, gross million m^3	325	331	335
Completed regeneration of forests, th. hectares	19,9	20.1	20.0
First afforestation, th. hectares	9.8	15.4	15.2
Completed afforestation, th. ha	6.9	7.6	8.6
Removals, gross th. m^3	7.287	7.010	7.015
Removals, percentage of annual forest plan potentials	79	75	74

On the basis of the above indicators, it can be stated that there is a planned, well-controlled sustainable forest management taking place in the country. Both the forested area and the growing stock have improved.
The state of health of the forestlands in the country has not gone to worth on national level in the year 2002. The rate of timber removals has stayed importantly below the biological potential. The forest regeneration has compensated for the harvested forests in terms of both quantities and

quality. Managers of state-owned forests have continued to perform activities at higher professional level than those managing private-owned forests, exhibiting varying quality of forest utilisation.

Distribution by ownership of the lands of planned forestry activities was as below:

Table 2.

Forest land owner	Area, th. ha	Share, %
State	1.038	57
Public (municipal etc.)	12	1
Private	771	42
Total	1.821	100

Distribution of forestland area by use:

timber production 67.7 %,
protection 30.8%,
public welfare 1.3 %
other 0.2 %.

These proportions have slightly changed to the advantage of the protective forests during the last years. Parallel with a slight decrease of the share of productive forests there was an increase of forests of other purposes that can be related to the designation of seed producing stands, forest reservations and their shelter zones.

Removals

In the year 2001, fellings were performed on 93 700 hectares, out of which area, some 21 100 hectares were harvested, i.e. final cut performed on. The removed gross amount of 7.015 million m^3 of timber represents 74 per cent of the sustainable forest plan potentials.
The state forestry share companies exploited their felling possibilities at 87 per cent on the average, while forest companies of private forest ownership at 58 per cent only.

The need for nature conservancy presents itself as a continuing tendency in the management of forests. Currently, 30.8 per cent of the total forested area is protected and this trend puts further limits to timber harvesting.

The state of wood processing industry

The production data in the wood-processing industries in 2001 show an increase, however with a slowing pace. The wood processing industry expanded according to the average growth of processing industries and industry in general. Looking at the details it becomes obvious the heart of expansion is sawn wood production. The manufacturing companies tried to compensate the increase of costs by an increase of production volumes and sales. At the same time the production of wood packing goods, cases, pallets etc. continued to go down.
Despite the boom in the building industry, the output and domestic sale of building joinery exhibited a backset; it only showed some extension in the foreign market.
Production of wood-based panels exhibits continuous growth since 1999. However, domestic sales are reducing as a contrast to the increase of export trade.

Preliminary production volumes for the year 2002 based on the reports not yet complete are shown in the table below, and the same are related to numbers of the year 2001.

Table 3.

Product	Production 2001	Production 2002	Index, 2002/2001 %
Removals (net timber volume above cut surface), thousand m^3	5 608	5 612	100.1
Sawnwood, thousand m^3	204	214	104.9
Plywood, thousand m^3	5	19*	380
Fibreboard, thousand m^3	60	58	96.7
Particleboard, thousand m^3	512	485	94.7
Veneer, million m^2	23	32**	139.1

* new production capacity appeared in the year 2002.
** guess based on precedents

Foreign trade of forest products

As for the volumes of the foreign trade of forest products, figures are different in summary, when compared to the previous years' figures. The gross removals at national level can be expected to amount to 7 015 thousand cubic meters for the year 2002, that only slightly exceeds the figure of the previous year. At the same time, the output of the processing industries, thanks to the pulling effect of export, exhibited an increase of 10.8 per cent, a pace much higher than earlier. The foreign trade of forest products last year was characterised by a rather sudden growth of import along with a major growth of export. In 2002, the former years' tendency of a slow backset of export with a constant pace of the growth of import broke.

The total value of **export of forest products amounted to USD 418.9 million** in 2002, which was USD 46 million, that is **12.3 per cent higher** than in the previous year. At the same time, the total value of **imports** has **increased by USD 121.9 million, i.e. 41.2 per cent**. As a result, the active **balance of the foreign trade of forest products went down from the former year's 77.2 million USD to USD 1.3 million**.

Comparing the tendencies in export and import by main categories of forest products, it can be stated that in the case of **wood raw materials**, as well as **miscellaneous wood products** the Hungarian national economy was, to a decreasing rate though, **net exporter**. However, for **wood-based panels and sawn products** the country was increasingly **net impor**ter.

Looking at the foreign trade in terms of partner countries it can be stated that as regards export, the European Union has a leading share of 76.2 per cent has not been changing. The 14.1 per cent share of the Central European countries follows this. Miscellaneous wood products (products of building elements and building joinery, pallets, finished parquet) are the leading category of export of forest products from Hungary to countries of the EU. This is followed by sawn products (mostly of oak, poplar and other hardwoods, parquet frieze) and wood in the rough (mainly fuel wood, spruce, oak, and poplar round wood). Panel products (hardwood veneer, plywood and raw hardboard) are lagging behind

Foreign trade flows of forest products in 2000-2001.

Table 4.

	2000	2000	2001	2001	Index (2001/2000%)	
	million HUF	million USD	million HUF	million USD	HUF	USD
	EXPORT					

Roundwood	17 036.6	59.4	17 358.2	66.9	101.9	112.6
Sawn wood products	18 973.3	65.8	22 577.0	86.7	119.0	131.8
Wood-based panels	22 853.6	79.7	24 086.9	93.4	105.4	117.2
Miscellaneous wood products	48 277.6	168.0	44 413.2	171.9	92.0	102.3
Forest products total	107 141.1	372.9	108 435.3	418.9	101.2	112.3
Paper and paperboard	116 890.0	407.1	295 460.4	1 142.1	252.8	280.6
Total	224 031.1	780.0	403 895.7	1 561.0	180.3	200.2
	IMPORT					
Roundwood	5 811.8	20.2	13 948.1	53.6	240.0	265.3
Sawn wood products	32 815.0	114.3	42 009.8	163.2	128.0	142.8
Wood-based panels	26 239.5	91.5	31 834.1	128.7	121.3	140.7
Miscellaneous wood products	19 985.2	69.7	18 503.8	72.1	92.6	103.4
Forest products total	84 851.5	295.7	106 295.8	417.6	125.3	141.2
Paper and paperboard	224 325.9	781.9	340 537.9	1 321.3	151.8	169.0
Total	309 177.4	1 077.6	446 833.7	1 738.9	144.5	161.4
	BALANCE					
Roundwood	11 224.8	39.2	3 410.1	13.3	30.4	33.9
Sawn wood products	-13 841.7	-48.5	-19 432.8	-76.5	140.4	157.7
Wood-based panels	-3 385.9	-11.8	-7 747.2	-35.3	228.8	299.2
Miscellaneous wood products	28 292.4	98.3	25 909.4	99.8	91.6	101.5
Forest products total	22 289.6	77.2	2 139.5	1.3	9.6	1.7
Paper and paperboard	-107 435.9	-374.9	-45 077.5	-179.2	42.0	47.8
Total	-85 146.3	-297.7	-42 938.0	-177.9	50.4	59.8

In the year 2002, the export of forest products **to the countries of Central and East Europe** mainly consisted of panel products (finished particleboard, finished MDF and hardboard, as well as domestic hardwood veneer), miscellaneous wood products (pallets, products of building elements and building joinery, finished parquet). In less amounts wood raw material (softwood, oak, and poplar roundwood), as well as small amounts of sawn products (oak, beech and other hardwoods) were exported.

The import of forest products by region of origin showed similar distribution and tendencies as in the preceding year. The Central and East European countries, to a decreasing extent though, continue to be our most important partners with a current share of 50.8 per cent. They are followed by the EU member states with and increasing share that currently makes up 44.6 per cent.

Import from the Central and East European countries includes mostly sawnwood products (coniferous at the first place, beech and other hardwoods in smaller amounts), and to a far less extent panel products (mainly finished particleboard, OSB, MDF and plywood), as well as miscellaneous wood products (pallets, products of building elements and building joinery and matches). Wood raw materials (softwood, beech, oak round wood) were only imported in insignificant amounts.

Import from the EU countries first of all meant panel products (mainly finished particleboard, OSB, MDF, raw particleboard and plywood), miscellaneous wood products (products of building elements and building joinery at the first place, pallets), and smaller amounts of sawn products (first of all coniferous sawnwood, parquet frieze, oak and beech sawnwood). Wood raw materials (softwood and hardwood logs, roundwood other than logs) were imported in the less amounts from those countries in t2002.

Production and sales of forest products

Based on the 19 state forestry stakeholders' data, Table 5. shows the production and sales volumes of the individual product categories in the year 2002. as the percentage of the previous year's figures.

Table 5.

Forest products categories	Logs	Pulpwood *	Chip-wood**	Fuel wood	Total
Production.	98. 1	107. 2	87. 9	105. 2	100. 8
Change of stock	113. 2	66. 2	98. 4	137. 6	116. 5
Sales	103. 0	107. 5	94. 8	116. 2	107. 1
Domestic sales	107. 3	121. 2	85. 5	119. 0	109. 5
Export	59. 3	103. 2	111. 5	82. 9	98. 2
Proceeds total	95. 1	97. 5	93. 8	119. 4	101. 0
Proceeds from domestic sales %	100. 1	111. 9	81. 6	124. 8	105. 2
Proceeds from export %	62. 9	93. 6	114. 0	81. 1	87. 0

* Round or split, used for making celluloze
** Round or split, used for particleboard and fibreboard manufacturing

In the case of the companies analysed, the production of wood raw materials in 2002. grew by 0.8 per cent as a whole when compared to the figures of the previous year. Within this growth, pulpwood production increased by 7.2 per cent, fuel wood by 5.2 per cent, while production of logs dropped by 1.9 per cent and that of chip wood by 12 per cent.
As for sales of the forest products in concern, all but chip wood showed growth. The tendency is the same in the case of domestic sales. The highest growth (19 per cent) could be observed with fuel wood, probably as a consequence of the long-lasting winter. There was an important fall of 40 per cent of export sales in the case of logs.

Proceeds of forest products sales increased by 1.04 per cent of the previous years figure in total, of which minus 1.94 per cent of changes in price, and plus 3.04 of volumes account for. The table below contains components of the sales indices for the year 2002. by products categories.

Table 6.

Product Category	Proceeds			Cost price			Production volumes		
	domestic	**export**	**total**	**domestic**	**export**	**total**	**domestic**	**export**	**total**
Industrial wood	98, 92	87, 78	96, 08	96, 45	97, 50	96, 72	102, 56	90, 04	99, 34
Fuel Wood	124, 81	81, 10	119, 42	103, 69	97, 77	102, 96	120, 37	82, 95	115, 99
Total forest product	105, 16	87, 00	101, 04	98, 00	97, 53	98, 06	107, 31	88, 78	103, 04

Vision

The programme of building homes as well as other important projects of development initiated by the Government give new perspectives to the housing industry and, as a consequence, expectations to the woodworking industry. Saw-milling industry may derive benefit of this tendency in the short term and panel industry in the long term.

The same situation may also mean that the import of coniferous roundwood and sawnwood as well as that of wood-based panels probably will increase, but the domestic producers of wood-based panelling and flooring will have an access to a better market too.

However, the economic situation of the European Union and the rate of change of the Hungarian currency are decisive for the export-driven sectors of woodworking industry.

An important part of the biological potential of fellings in Hungary could be utilised in the energy market. This is a possibility that worth attention in the case if consumers can be convinced of the use of renewable sources of energy, just like wood. The question today is not primarily a biological and technological one, rather it is related to logistics and financial support. Recently several power plants that are interested in regional heat and electric energy supply have decided to convert to fuel wood burning. Unfortunately enough, they were making bid with subsides for wood resources that had been relied on before by the further processing industries. This may jeopardise the raw material provision, and hence the vision of woodbased panel manufacture in Hungary.

With regards to the international context

- The Hungarian republic will soon become a full member of the European Union, for that reason it acts in matters relating forest management according to the pertinent rules of the EU.
- Hungary is one of signatory countries of the declarations by the Ministerial Conference on the Protection of European Forests. At its latest, 4th conference the Hungarian minister of agriculture and regional development signed, on behalf of the Government, a declaration and five decisions, as voluntary commitment.

- In Hungary, the elaboration of National Forest Programme and Forest Strategy is in progress since July 2001. The social debate of the expert proposal of the same programme has ended in June 2003. The prerequisite for the launch of the next step is a discussion of the experiences of programme planning on the highest level, with the participation of the ministries concerned and the relevant committees of the Parliament. It can be anticipated that this process will be concluded by a Parliament decision in 2004.